

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 AID-05 CIAE-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04
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FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC
SECSTATE WASHDC 2808
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION EC BRUSSELS
USMISSION OECD PARIS
USDEL MTN GENEVA
USDOC WASHDC

UNCLAS LONDON 06350

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: REACTION TO BANK OF ENGLAND'S FOREIGN CURRENCY
BOND SALE
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1. THE BANK OF ENGLAND ANNOUNCED THAT OF 25 OFFICIAL
HOLDERS OF STERLING APPROACHED, 15 HAD AGREED TO CONVERT
A TOTAL OF 394 MILLION POUNDS OF THEIR STERLING ASSETS IN-
TO THE NEW FOREIGN CURRENCY DENOMINATED BONDS. THE CON-
VERSION WAS DISTRIBUTED OVER THE NEW BONDS AS:
(POUNDS MILLION)

8-3/4 PERCENT 1982 DOLLAR	116
8-5/8 PERCENT 1984 DOLLAR	51
8-7/8 PERCENT 1987 DOLLAR	11
8 PERCENT 1984 YEN	45
7-1/2 PERCENT 1984 DM	89
5-7/8 PERCENT 1984 SF	82

2. THE OFFER OF FOREIGN CURRENCY BONDS WAS IN FULFILLMENT OF ONE OF THE U.K.'S OBLIGATIONS UNDER THE STERLING BALANCES SAFETY NET ARRANGED AT BASLE. THIS ARRANGEMENT STIPULATED THAT IF U.K. RESERVES FELL BELOW \$6.75 BILLION, SEVERAL INDUSTRIAL COUNTRIES WOULD FUND, THROUGH THE BANK OF INTERNATIONAL SETTLEMENTS, CERTAIN DRAWDOWNS OF OFFICIAL STERLING BALANCES, AND THAT THE U.K. SHOULD ATTEMPT TO ARRANGE FOR THE ORDERLY CONVERSION OF SOME OF THE BALANCES INTO FOREIGN CURRENCY DENOMINATED LIABILITIES ISSUED IN THE U.K.'S NAME.

3. PRESS REACTION TO THE LEVEL OF BOND SALES WAS THAT IT WAS REASONABLE. THE FINANCIAL TIMES NOTED THAT THE SAFETY NET WOULD PROBABLY NOT BE USED NOW, ON THE GROUNDS THAT ABOUT HALF OF STERLING BALANCES, WHICH STOOD AT 2.2 BILLION POUNDS AT THE END OF 1976, WERE LIKELY TO BE WORKING BALANCES. THAT MOST OF THE MORE VOLATILE STERLING BALANCES HAD BY NOW LEFT ENGLAND, AND THAT BRITISH RESERVES, AT OVER \$9 BILLION, APPEARED TO BE COMFORTABLY IN EXCESS OF \$6.75 BILLION. IT HASTENED TO STRESS, HOWEVER, THAT THE SAFETY NET IS WELL WORTH HAVING, AS "ITS MOST IMPORTANT PRACTICAL EFFECT HAS BEEN IN IMPROVING SENTIMENT TO-

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WARDS THE POUND IN FOREIGN EXCHANGE MARKETS."

4. THERE WERE SOME RESERVATIONS EXPRESSED. THE TIMES NOTED THAT IN SOME QUARTERS A SALE OF 500 TO 1,000 MILLION POUNDS WAS EXPECTED. THE FINANCIAL TIMES EXPRESSED CONCERN THAT EVEN IF OFFICIAL HOLDINGS OF STERLING HAVE BEEN STABILIZED THAT PRIVATE HOLDINGS, NOW GREATER THAN THE OFFICIAL, MAY GROW.

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Message Attributes

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Sent Date: 19-Apr-1977 12:00:00 am
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Decaption Note:
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
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